

**Port Hope-Gore-Rubicon Utility Authority
Port Hope, MI**

Huron County

**FINANCIAL REPORT
March 31, 2008**

Port Hope-Gore-Rubicon Utility Authority

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Independent Auditor's Report

To the Authority Members
Port Hope-Gore-Rubicon Utility Authority
Port Hope, MI 48468

We have audited the accompanying statements of net assets of Port Hope-Gore-Rubicon Utility Authority (a component unit of the Village of Port Hope, Michigan) as of March 31, 2008 and statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Management has elected to omit the management's discussion and analysis which are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board.

In our opinion, except for the omission of management's discussion and analysis as discussed in the previous paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Port Hope-Gore-Rubicon Utility Authority as of March 31, 2008, and its changes in financial position and cash flows for the years ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2008, on our consideration of the Port Hope-Gore-Rubicon Utility Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Midwest Accounting, P.C.

Midwest Accounting, P.C.
September 9, 2008

Midwest Accounting, P.C.
101 N Port Crescent St
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**Report on Internal Control Over Financial Reporting and Compliance and
Other Matters Based on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards**

To the Authority Members
Port Hope-Gore-Rubicon Utility Authority
Port Hope, MI 48468

We have audited the financial statements of the Port Hope-Gore-Rubicon Utility Authority as of March 31, 2008 and for the year then ended and have issued our report thereon dated September 9, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Port Hope-Gore-Rubicon Utility Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Port Hope-Gore-Rubicon Utility Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Port Hope-Gore-Rubicon Utility Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Port Hope-Gore-Rubicon Utility Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Port Hope-Gore-Rubicon Utility Authority's financial statements that is more than inconsequential will not be prevented or detected by Port Hope-Gore-Rubicon Utility Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by Port Hope-Gore-Rubicon Utility Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance

As part of obtaining reasonable assurance about whether Port Hope-Gore-Rubicon Utility Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, the State of Michigan, and the United States Department of Agriculture Rural Development and is not intended to be and should not be used by anyone other than those specified parties.

Midwest Accounting, P.C.

Midwest Accounting, P.C.
September 9, 2008

Port Hope-Gore-Rubicon Utility Authority
(a component unit of the Village of Port Hope, Michigan)
Statement of Net Assets

ASSETS

	<u>March 31, 2008</u>	<u>March 31, 2007</u>
CURRENT ASSETS		
Cash Checking	\$ 190,415.24	\$ 152,448.72
CD J Fund	160,356.44	153,380.99
Accounts Receivable	72,306.65	69,339.59
Prepaid Insurance	<u>2,577.50</u>	<u>2,957.32</u>
Total Current Assets	<u>425,655.83</u>	<u>378,126.62</u>
PROPERTY AND EQUIPMENT		
Water System	\$ 4,249,733.05	\$ 4,249,733.05
Water Tower	295,482.18	295,482.18
Meters	63,705.25	63,705.25
Office Equipment	11,558.73	10,945.00
Less - Accumulated Depreciation	<u>(1,480,139.00)</u>	<u>(1,365,678.00)</u>
Net Property and Equipment	<u>3,140,340.21</u>	<u>3,254,187.48</u>
OTHER ASSETS		
CD Signature 300007505	103,189.40	99,287.80
Unamortized Bond Issue Costs	<u>22,363.45</u>	<u>23,223.58</u>
Total Other Assets	<u>125,552.85</u>	<u>122,511.38</u>
TOTAL ASSETS	<u><u>\$ 3,691,548.89</u></u>	<u><u>\$ 3,754,825.48</u></u>

The accompanying notes are an integral part of the financial statements

Port Hope-Gore-Rubicon Utility Authority
(a component unit of the Village of Port Hope, Michigan)
Statement of Net Assets

LIABILITIES AND FUND EQUITY

	<u>March 31, 2008</u>	<u>March 31, 2007</u>
CURRENT LIABILITIES		
Current Portion Bonds Payable	32,000.00	30,000.00
Accounts Payable	19,792.05	22,991.07
Accrued Interest	11,067.95	0.00
Federal Withheld	974.88	1,363.57
Fica and Medicare Withheld	651.78	100.60
State Withheld	185.31	135.41
Total Current Liabilities	<u>64,671.97</u>	<u>54,590.65</u>
LONG-TERM LIABILITIES		
Revenue Bonds Payable	1,109,000.00	1,128,000.00
Revenue Bonds Payable	341,000.00	348,000.00
Less Current Portion	<u>(32,000.00)</u>	<u>(30,000.00)</u>
Total Long-Term Liabilities	<u>1,418,000.00</u>	<u>1,446,000.00</u>
Total Liabilities	<u>1,482,671.97</u>	<u>1,500,590.65</u>
NET ASSETS		
Investment in Fixed Assets,		
Net of Related Debt	1,690,340.21	1,778,187.48
Restricted	103,189.40	99,287.80
Unrestricted	<u>415,347.31</u>	<u>376,759.55</u>
TOTAL NET ASSETS	<u>2,208,876.92</u>	<u>2,254,234.83</u>
TOTAL NET ASSETS AND LIABILITIES	<u>\$ 3,691,548.89</u>	<u>\$ 3,754,825.48</u>

The accompanying notes are an integral part of the financial statements

Port Hope-Gore-Rubicon Utility Authority
(a component unit of the Village of Port Hope, Michigan)
Statement Of Revenues, Expenses, and Changes in Fund Net Assets

	For the Years Ended	
	March 31, 2008	March 31, 2007
REVENUES		
Water Usage	\$ 274,678.48	\$ 286,655.19
Hook-Up Fees Income	<u>2,600.00</u>	<u>2,400.00</u>
Total Revenues	<u>\$ 277,278.48</u>	<u>\$ 289,055.19</u>
OPERATING EXPENSES		
Bank Service Charge	6.00	0.00
Contractual Services Exp	5,458.00	5,821.00
Depreciation Expense	114,461.00	114,522.00
Dues and Membership Exp	1,644.66	1,674.65
Insurance	8,460.82	8,825.00
Legal and professional Exp	2,600.00	2,450.00
Miscellaneous	0.00	28.00
Office Supplies and Postage Exp	1,112.04	1,140.45
Payroll Taxes Exp	1,390.78	1,214.13
Printing	0.00	22.95
Rent Office and Meters	32.00	1,800.00
Repairs and Maintenance	3,366.75	1,254.22
Sewer Collections Exp	59,261.76	65,326.73
Supplies Exp	1,097.27	7,041.10
Travel and Conference	222.82	0.00
Utilities Exp	337.93	336.70
Wages	16,993.67	15,871.00
Water Purchased Exp	<u>39,819.89</u>	<u>36,723.99</u>
Total Operating Expenses	<u>256,265.39</u>	<u>264,051.92</u>
OPERATING INCOME (LOSS)	<u>21,013.09</u>	<u>25,003.27</u>
OTHER INCOME (EXPENSE)		
Interest Income	18,827.07	15,845.68
Amortization of Bond Cost	(860.13)	(860.13)
Interest Expense	<u>(84,337.94)</u>	<u>(75,477.49)</u>
Total Other Income (Expense)	<u>(66,371.00)</u>	<u>(60,491.94)</u>
INCREASE (DECREASE) IN NET ASSETS	(45,357.91)	(35,488.67)
NET ASSETS - BEGINNING OF YEAR	<u>2,254,234.83</u>	<u>2,289,723.50</u>
NET ASSETS - END OF YEAR	<u>\$ 2,208,876.92</u>	<u>\$ 2,254,234.83</u>

The accompanying notes are an integral part of the financial statements

Port Hope-Gore-Rubicon Utility Authority
(a component unit of the Village of Port Hope, Michigan)
STATEMENT OF CASH FLOWS

	For the Years Ended	
	<u>March 31, 2008</u>	<u>March 31, 2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Receipts From Customers	\$ 274,311.42	\$ 283,132.79
Cash Payments to Suppliers of Goods and Services	<u>(217,681.19)</u>	<u>(220,601.07)</u>
Net Cash Provided By Operating Activities	<u>56,630.23</u>	<u>62,531.72</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Expenditures	(613.73)	0.00
Revenue Bond Repayments	<u>(26,000.00)</u>	<u>(24,000.00)</u>
Net Cash Provided By (Used In) Capital and Related Financing Activities	<u>(26,613.73)</u>	<u>(24,000.00)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	<u>18,827.07</u>	<u>15,845.68</u>
Net Cash Provided By (Used In) Investing Activities	<u>18,827.07</u>	<u>15,845.68</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	48,843.57	54,377.40
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>405,117.51</u>	<u>350,740.11</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>\$ 453,961.08</u></u>	<u><u>\$ 405,117.51</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (45,357.91)	\$ (35,488.67)
Adjustments to reconcile Net Income (Loss) to net Cash provided by (used in) operating activities		
Depreciation and Amortization	115,321.13	115,382.13
Interest Income	(18,827.07)	(15,845.68)
Decrease (Increase) in Operating Assets		
Accounts Receivable	(2,967.06)	(5,922.40)
Other	379.82	0.00
Increase (Decrease) in Operating Liabilities		
Accounts Payable	(3,199.02)	4,398.43
Accrued Liabilities	<u>11,280.34</u>	<u>7.91</u>
Total Adjustments	<u>101,988.14</u>	<u>98,020.39</u>
Net Cash Provided By (Used in) Operating Activities	<u><u>\$ 56,630.23</u></u>	<u><u>\$ 62,531.72</u></u>

The accompanying notes are an integral part of the financial statements

Port Hope-Gore-Rubicon Utility Authority
(a component unit of the Village of Port Hope, Michigan)
Notes to Financial Statements
March 31, 2008

Note 1 - Summary of Significant Accounting Policies:

The accounting policies of the Port Hope-Gore-Rubicon Utility Authority (the "Authority") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Authority:

A. Organization

The Authority was created in 1990 under Public Act 233 of 1955 and began operations in August 1994. Ownership of the Authority's assets is retained by the Authority for the beneficiaries of the trust. Upon termination of the trust, the net assets will be distributed to the beneficiaries based upon their pro rata interest. The current beneficiaries are the Village of Port Hope, Michigan and Townships of Gore, Michigan and Rubicon, Michigan.

B. Operations

The purpose of the Authority is to provide a water supply system for the residents and property owners of the constituent units, which include the Village of Port Hope and Townships of Gore and Rubicon. The Authority is governed by a nine-person Board appointed by the constituent municipalities each serving a term of three years.

C. Basis of Accounting

The financial statements of the Authority have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Voluntary nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Investment income and voluntary nonexchange transactions are included in other income and expenses. The Authority first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

D. Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Port Hope-Gore-Rubicon Utility Authority
Notes to Financial Statements
March 31, 2008

Receivables and Payables

All trade receivables are shown as net of allowance for uncollectible amounts. The Authority has estimated the allowance for doubtful accounts as of March 31, 2008 and 2007 to be \$-0-.

Restricted Assets

The revenue bonds of the enterprise funds require amounts to be set aside for a bond reserve. These amounts have been classified as restricted assets.

Capital Assets

Capital assets are defined by the Authority as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital assets placed in service are depreciated on a straight-line basis over the following estimated useful lives.

Water sytem and tower	40 years
Water Meters	10 years
Office Equipment	5-7 years

Cost and related accumulated depreciation are removed from the records when capital assets are sold or abandoned.

Income Taxes

The Authority, as a political subdivision, is excluded from taxation under Section 115(1) of the Internal Revenue Code.

Note 2 - Deposits and Investments:

Deposits

The Authority's cash accounts consist of various interest bearing checking and savings accounts. At year-end, the carrying amount of the Authority's deposits was \$190,415.24 and the bank balance was \$190,415.24.

Investments

State statutes authorize the Authority to invest in obligations of the U.S. Treasury and U.S. agencies, deposit agreements with federally insured financial institutions with the State of Michigan, high grade commercial paper, repurchased obligations of the U.S. government and U.S. agencies, banker's acceptances of U.S. banks and mutual funds. As of March 31, 2008, the Authority's investments consisted of certificates of deposit and Money Market Funds which the carrying amount and the bank balance was \$263,545.84.

Port Hope-Gore-Rubicon Utility Authority
Notes to Financial Statements
March 31, 2008

The total Authority's cash and investments amounted to \$453,961.08 as of March 31, 2008 and \$200,000 was covered by Federal Depository Insurance.

Note 3 - Long-Term Debt:

The following is a summary of changes in long-term debt for the year ended March 31, 2008.

	<u>Balance</u> <u>4/01/07</u>	<u>Additions</u> <u>(Retirements)</u>	<u>Balance</u> <u>3/31/08</u>
\$1,272,000 1993 Water Supply System Revenue Bonds, due in annual installments of \$11,000 to \$81,000 plus interest semi-annually at a rate of 5.25% through March 1, 2033	<u>\$1,128,000</u>	<u>\$(19,000)</u>	<u>\$1,109,000</u>
 \$360,000 2004 Water Supply System Revenue Bonds, due in annual installments of \$12,000 plus interest semi-annually at a rate of 4.375% through April 1, 2035	 <u>348,000</u>	 <u>(7,000)</u>	 <u>341,000</u>
	<u>\$1,476,000</u>	<u>\$(26,000)</u>	<u>\$1,450,000</u>

The annual principal and interest requirements are as follows as of March 31:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	32,000	73,141	105,141
2010	34,000	71,566	105,566
2011	35,000	69,886	104,866
2012	36,000	68,154	104,154
2013	38,000	66,369	104,369
Thereafter	<u>1,275,000</u>	<u>794,106</u>	<u>2,069,106</u>
	<u>1,450,000</u>	<u>1,143,222</u>	<u>2,593,222</u>

The bond ordinance requires the Authority to establish cash reserves to fund future bond principal and interest payments. Contribution requirements vary in amount until a reserve of \$82,000 has been accumulated. As of March 31, 2008 and 2007 the amount restricted as a reserve for the bond was \$103,189.40 and \$99,287.80, respectively.

Port Hope-Gore-Rubicon Utility Authority
Notes to Financial Statements
March 31, 2008

Note 4 - Employee Retirement and Benefits Systems:

The Authority does not provide for Retirement Benefits for its employees.

Note 5 - Related Party Transactions:

All billing and collection activities are done by the Village of Port Hope. During the years ended March 31, 2008 and 2007 the Authority paid \$4,620 and \$4,620, respectfully, for billing services.

During the years ended March 31, 2008 and 2007 the Authority paid \$59,261.76 and \$65,326.73, respectfully, to the Village of Port Hope for sewer services.

Note 6 - Restatement of Net Assets:

The breakdown of total net assets as of March 31, 2007 has been restated to be consistent with the 2008 format. The restatement had no effect on total net assets or increase (decrease) in net assets for the year ended March 31, 2008.